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## Faculteit Bedrijfseconomische Wetenschappen

master in de toegepaste economische wetenschappen

### **Masterthesis**

***Verbeteren van de bedrijfsprestaties? De noodzakelijke combinatie van een effectieve Raad van Bestuur EN Topmanagementteam***

### **Jarno Schevenels**

Scriptie ingediend tot het behalen van de graad van master in de toegepaste economische wetenschappen, afstudeerrichting innovatie en ondernemerschap

### **PROMOTOR :**

Prof. dr. Tensie STEUJVERS

### **COPROMOTOR :**

Prof. dr. Pieter VANDEKERKHOF



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# VOORWOORD

Voor u ligt de masterproef 'Improving decision making quality in family firms? The necessary combination of an effective board and TMT'. Deze masterproef is geschreven in het kader van de voltooiing van het masterjaar Toegepaste Economische Wetenschappen, afstudeerrichting Innovation and Entrepreneurship aan de UHasselt. Het voltooiën van een masterproef is geen eenvoudige opdracht en zonder de hulp van enkele personen zou dit nooit gelukt zijn. Daarom zou ik graag deze personen via deze weg bedanken.

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Ik wens u veel leesplezier toe,

Jarno Schevenels,

Velm, 28/05/18



# SAMENVATTING

Het nemen van kwaliteitsvolle strategische beslissingen is een essentieel onderdeel van het bedrijfswezen. Dit kan namelijk het verschil betekenen tussen het voeren van een succesvol of een falend bedrijfsbeleid. Een goede samenwerking tussen de twee hoofd governance mechanismen is daarom noodzakelijk. Zowel de managers in het Top Management Team (die instaan voor de dagelijkse activiteiten) als de bestuurders in de Raad van Bestuur (die de managers assisteren en sturen met behulp van controle en advies) spelen een prominente rol in het maken van juiste bedrijfs-gerelateerde beslissingen. Vermits bedrijven steeds meer en meer gebruik maken van vlakkere organisatiestructuren, zullen Raden van Bestuur hun management team in toenemende mate benaderen vanuit een advies-gevend perspectief, terwijl controle een minder belangrijke rol zal spelen. Ze zullen met andere woorden meer actief betrokken zijn bij de strategische processen die een bedrijf definiëren. Daarom onderzoeken we in deze studie welke effecten de adviesrol van de Raad van Bestuur (RvB) juist zal hebben op de kwaliteit van de strategische beslissingen die genomen worden door het Top Management Team (TMT). Verder breiden we deze onderzoeksvraag uit naar de samenstelling van de RvB, alsook een belangrijk gedragsmatig domein. Gebruikmakend van een dataset met 47 Belgische familiebedrijven, zijn we tot de conclusie gekomen dat de mate waarin de RvB zijn adviesrol effectief uitoefent een onverwacht negatief effect zal hebben op de strategische beslissingskwaliteit. Ondanks dat het aantal externe bestuurders in de raad van bestuur en het aantal jaren dat de bestuurders actief zijn in het bedrijf geen significant effect hadden op onze onderzoeksvraag, hebben we wel een belangrijke implicatie gevonden van het interactie effect tussen de adviesrol van de RvB en de mate waarin de RvB en het TMT gedragsmatig geïntegreerd zijn (*inter-team behavioral integration*). Zo zullen bedrijven waarvan hun governance mechanismen erin slagen om hun gedrag ten opzichte van elkaar te coördineren, het negatief effect van de adviesrol op de kwaliteit van strategische beslissingen verminderen. In het algemeen kunnen we dus concluderen dat de adviserende rol van de RvB in familiebedrijven niet als een meerwaarde wordt gezien door de managers, potentieel door de context van familiebedrijven, waar er vaak een extensieve overlap is tussen leden van de RvB en leden van het TMT. Het zou daarom een interessante piste zijn voor verder onderzoek om dergelijke relaties omtrent de context van familiebedrijven en de strategische processen binnen deze bedrijven meer uitgebreid in kaart te brengen.



# Improving decision making quality in family firms? The necessary combination of an effective board and TMT

Jarno Schevenels

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**Abstract:** This paper seeks to explore how strategic interactions between the board of directors and the Top Management Team (TMT) can lead to higher quality strategic decisions. We analyze the relationship between the advisory role of the board and the strategic decision-making quality of the TMT, building on the strategic choice theory. We test our hypotheses on a sample of 261 managers from 47 private Belgian family SMEs. Our main empirical result is the negative impact that the board's advice-giving role has on the strategic decisions made by the TMT. Further, we find that inter-team behavioral integration will positively moderate this negative effect. This study contributes to research on both corporate governance and family firms.

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**Keywords:** Strategic Decision-Making, Strategic Decision-Making Quality, Inter-Team Relationship, TMT, Board of Directors, Family Firms

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## INTRODUCTION

Making the right strategic decisions has always been one of the main objectives of most firms, private and public firms alike. To achieve this goal, companies have installed two main governance structures within their corporate culture, the Top Management Team (TMT) and the board of directors. The TMT is responsible for both the daily operations within the company, formulating strategies as well as making the strategic decisions that are in the best interest of the company. The board of directors on the other hand has both a monitoring and an advisory role to assist the TMT in determining the strategic path that the firm will take. In other words, the board will take care of both the initiation of strategic decisions, as well as controlling the TMT's actions in such a way that their needs are aligned with the needs of the firm's shareholders. Both mechanisms thus play an essential role in composing and implementing new strategic decisions, where strategic decisions are made through dynamic processes of interaction, consulting and debating (Mahoney, 1995). Most of these interactions take place through the advice that is given from the board of the directors to the TMT. Furthermore, when the interrelations between these governance mechanisms reach a high quality, the organization's strategic performance will be improved (Anderson, Melanson, & Maly, 2007).

Since board research is developing from a 'directors should control managers' perspective to a 'directors and managers should work together' perspective (Rindova, 1999), we argue that the strategic choice theory (Child, 1972) will produce a more insightful and broader overview with regards to our study. Within this theory, the active involvement of the board in the strategic processes of the firm is emphasized. Together with the TMT, this board will formulate the strategic objectives of the company and take on the development of strategic plans (Finkelstein, Hambrick,



& Cannella, 2009; Simsek, Jansen, Minichilli, & Escriba-Esteve, 2015). According to this point of view, the strategic process in which both the TMT and the board of directors should be involved has to be organized in an interactive and iterative way, rather than sequential (Rindova, 1999). Additionally, Bammens, Voordeckers, and Van Gils (2011) have found that active involvement of boards in the strategic-decision making process is often the case in family businesses. Although this sort of involvement has been widely researched in recent years, most of the researchers' efforts involved analyzing the management-board relationship in terms of board effectiveness (Westphal, 1999), and thus not specifically their implications for the TMT. Nevertheless, an active role of the board of directors in strategic decision-making has been confirmed as most important for the CEOs of family firms (Van den Heuvel, Van Gils, & Voordeckers, 2006). This importance can be attributed to the higher overlap between the TMT and the board in family SMEs due to the strong presence of family in both of these organizational bodies (Bammens et al., 2011; Brunninge, Nordqvist, & Wiklund, 2007; Rindova, 1999). The effect, however, that this sort of involvement has on the strategic decision-making quality of the TMT remains elusive. This is a pity, as such effects could have important implications not only for the TMT, but for the entire organization. Thus, we join the debate on the active involvement of the board by extending it through the investigation of the TMT's strategic results. In particular, we will discuss the relation between the advice-providing role of the board and the quality of the strategic decisions made by the TMT from a strategic choice perspective, given that a focus on relations is the most correct approach to any research on boards (Castro, De La Concha, Gravel, & Periñan, 2009). Additionally, the advice- and support-providing roles of the board have been widely considered to be the most prominent roles a board will exercise while in a strategically active state.

The main purpose of this study is to deepen our understanding of how the advisory-related relations between the board of directors and the TMT affect the decision-making quality of the management from a strategic point of view. Decision-making quality can determine the composition of a firm's strategies, as well as a firm's commitment to the implementation of such a strategy (Mustakallio, Autio, & Zahra, 2002). Since maintaining a high decision-making quality is essential to establish long-term sustainability in most firms (Dooley & Fryxell, 1999; Mustakallio et al., 2002), it provides a fruitful area of research.

Our main contribution is that we introduce a model that not only shows to what extent advice given by the board has a presumed positive effect on the decision-making quality of the TMT, but that also analyzes the effects that both board-/TMT-related dimensions and behavioral dimensions may have on the beforementioned relation.

Firstly, we argue that the number of outsiders on the board may affect the advice-providing role of the board positively, where the advice-providing role of the board is a mediator between the number of outsiders and the strategic decision-making quality of the TMT. Research on the effects of outsiders, or non-family directors, in a family business context has been the subject of much controversy. Nevertheless, we argue that outsiders on the board of directors enable a firm to approach their strategy from new points of view (Borch & Huse, 1993), provide a firm with increased knowledge (Goll, Brown Johnson, & Rasheed, 2007) and allows the firm to break the spiral of strategical inertia (Forbes & Milliken, 1999; Lant, Milliken, & Batra, 1992; McDonald &

Westphal, 2003; Sundaramurthy & Lewis, 2003; Westphal & Bednar, 2005). The choice of outsiders as an independent variable is reliable, because outsiders are bound to have a different effect on the type of advice that the board gives, compared to internal directors.

Secondly, we consider the average tenure of the board to be a variable that may have a positive effect on the advisory role of the board of directors, with this advisory role mediating the relationship between the average board tenure and the quality of strategic decisions made by the TMT. This consideration is based on the fact that directors with a higher tenure tend to possess more knowledge and experience (Barroso, Villegas, & Pérez-Calero, 2011), which will benefit the advice that is given by the board, and thus also indirectly the quality of strategic decisions made by the TMT. These directors also tend to show more commitment to the firm in the long-term (Iturralde, Maseda, Arosa, & García-Ramos, 2016), which makes it a variable that is bound to have a considerable effect on the advice-providing role of the board.

Finally, from a behavioral point of view, inter-team behavioral integration between the TMT and the board of directors is considered as a variable that may strengthen the positive effect of the advisory role on the decision-making quality of the TMT. Inter-team behavioral integration means that both teams, the TMT and the board, will coordinate their behaviors and resources in such a way that combined efforts can be realized more easily. In other words, inter-team behavioral integration facilitates an improved form of communication, which could lead to an enhanced transfer of advice from the board to the TMT. Thus, the presence of inter-team behavioral integration is perceived as necessary in order to improve the way in which a board of director's advice will positively affect the strategic decision-making quality of the TMT. Because this inter-team behavioral integration allows both parties to coordinate their strategic workflows (Kazanjian, Drazin, & Glynn, 2000) and is therefore bound to have an impact within this study, it is justified as a moderator within the model.

We will be performing a quantitative, empirical study on a database in which 55 Belgian family firms have been analyzed. Within the database, multiple characteristics of both the TMT, CEO and board of directors are included. The data has been collected based on detailed questionnaires that have been filled out by every member of the management. However, after extensive analysis, 8 out of the 55 family firms produced missing values and thus had to be excluded from this research. This results in an elaborate sample of 261 managers, which allows us to comprehensibly measure the direct effect of advice on the decisions made by the TMT. In the subsequent sections of this article, we will discuss the theory based on a literature review, propose different hypotheses related to the aspects described above and present the empirical results of the study. After describing the findings, we will conclude with a discussion in which we will mention implications for both theory and management practice, as well as the limitations and potential avenues for future research.



# THEORY AND HYPOTHESES

## **Strategic choice perspective**

The foundations for the modern strategic choice perspective were laid out in the 70s, when theorists ventured deeper into the institutional behavior of the organization in relation to the external environment. Initially, the strategic choice perspective (Child, 1972), has argued that organizational outcomes can be explained by the actions organizational members take in order to adapt to a changing environment. Miles, Snow, Meyer, and Coleman (1978) have described three key characteristics of this theory. According to them, this perspective (1) views managerial or strategic choice as the main link between organization and environment; (2) focuses on management's ability to create, learn about, and manage the organization's environment; and (3) encompasses the various ways in which organizations respond to environmental conditions. Judge and Zeithaml (1992) integrated both the institutional perspective (Meyer & Rowan, 1977) and the strategic choice perspective (Child, 1972) with great attention to their implications for the strategic decision-making process and behavior of the board of directors specifically. However, they noticed that the strategic choice perspective was more prominent in explaining the internal group dynamics of the board, as well as board involvement. Therefore, we argue that the strategic choice perspective is the relevant perspective to base our research on.

Other authors (Finkelstein et al., 2009; McNulty & Pettigrew, 1999; Ravasi & Zattoni, 2006; Rindova, 1999; Simsek et al., 2015), too, began to recognize the importance of the strategic choice perspective in explaining the strategic role of the board and started to further the strategic choice research on board-specific processes and relationships. This adaptation of the strategic choice perspective, where a broader strategic role of the board of directors is emphasized, is of great importance within a family firm setting. Because family businesses have the tendency to operate with a strategically active board of directors which performs advice oriented roles instead of management control and monitoring roles (Bammens et al., 2011; Brunninge et al., 2007; Zahra, Filatotchev, & Wright, 2009), the board will be more involved in the refinement of corporate strategy and the development of strategic plans (Finkelstein et al., 2009; Simsek et al., 2015). One of the main reasons behind this strategical importance of the board of directors can be found in the extensive family overlap between both the TMT and the board of directors in a family firm (Bammens et al., 2011; Brunninge et al., 2007; Rindova, 1999), which blurs the boundaries between these corporate governance bodies, implicating a more active facilitating role for the board. Additionally, when the complexity and uncertainty of strategic decisions increases, the board will be more involved in the strategic decision-making process (Rindova, 1999), because such situations require extensive knowledge and information that the managers may not have. Directors often possess the necessary experience and expertise to better resolve complex strategical situations. Thus, in summary, the strategic choice perspective argues that both the TMT and the board of directors should be contributing to the strategic process of a firm in an interactive and continuous way instead of sequential (Rindova, 1999), which often is the case in a family SME. This theory therefore provides a good starting point and background to analyze the effects of the advice-providing role of the board of directors on the strategic decision-making quality of the TMT.

## Hypotheses development

Despite boards of directors playing an important strategic role in an organization, prior literature has primarily been occupied with investigating the general organizational performance implications of the board and therefore lost sight of the added strategic value of the executive board. Board involvement in the firm's strategies, too, is an essential notion in the corporate governance research stream. As has been argued by Castro et al. (2009), further research is needed into the role of the board and its many diverse tasks, as well as how these relate to the TMT. Traditionally, two main roles of the board of directors have been identified. The monitoring role of the board entails that the TMT should be controlled by the board, so that managers perform the daily operations in a way that is in line with the stakeholder's needs. The advisory role on the other hand requires that the board of directors aids the members of the TMT in making the right decisions through the provision of advice, as well as participate in the formulation of strategy (Forbes & Milliken, 1999). It is important that every firm's board finds the right balance between these overarching roles.

Within the field of board involvement both Ginsberg (1994) and Rindova (1999), acknowledge that directors do not solely have to perform a controlling role in order to strengthen the strategic foundations of a company. Through usage of their expertise, informational capabilities and other cognitive resources in their advice-provision, they can increase the understanding, creativity and comprehensibility of the firm's strategic decisions as well. Anderson et al. (2007) share this view, by arguing that the board is a strategic partner who can deliver differing viewpoints in terms of strategy planning, risk management and execution, potentially leading to better strategic decision outcomes and improved firm performance. Thus, the board of directors can complement the knowledge base of the TMT through the provision of advice and counsel (Gabrielsson & Huse, 2005), which allows the managers to improve their strategic decisions. Additionally, from a strategic choice perspective, Anderson et al. (2007) emphasize the significance of the board's advisory role in order to be able to co-operate and work together with the TMT, enhancing strategical outcomes in the process. Castro et al. (2009) follow this view by arguing that a healthy conversation between the TMT and the board can contribute to a firm's strategic decision-making quality. Such a conversation is only possible if the board of directors is providing thorough and helpful advice to the managers in the Top Management Team. Therefore, we argue that a more thorough advice-giving role of the board of directors will give way to a highly strategically capable TMT, thus improving the decision-making quality of the TMT.

***H1: The extent of advice provision by the board of directors will have a positive effect on the quality of the strategic decisions made by the TMT.***

The effect of outsiders on the board has always been a topic of much discussion. The extended research on outsiders has, however, led to inconclusive results (Castro et al., 2009).

On the one hand, one school of researchers have been saying that the presence of outsiders on the board has positive implications for the speed and quality of strategic change (Brunninge et al., 2007), which is a collective term for important strategic decisions that need to be made by the firm (Ginsberg, 1994; Rindova, 1999). This school argues that: (1) outside board members can point

out new strategic directions and provide both information and advice during a change process (Borch & Huse, 1993); (2) outside directors bring about new ideas and allow to break with the dominant procedures and protocols (Forbes & Milliken, 1999; Lant et al., 1992; McDonald & Westphal, 2003; Sundaramurthy & Lewis, 2003; Westphal & Bednar, 2005); (3) outsiders' network allows for organizational practices and strategies to spread (Rindova, 1999; Westphal & Fredrickson, 2001); (4) outside directors stimulate organizational innovation and cognitive diversity (Eisenhardt, Kahwajy, & Bourgeois, 1997; Forbes & Milliken, 1999; Jackson, 1992; Rindova, 1999); (5) outsiders expand a company's knowledge capabilities (Goll et al., 2007); (6) outside directors reduce uncertainty during organizational changes (Zahra & Pearce, 1989).

Another school of researchers are convinced that the contrary is the case. The results of their studies show that outsiders have negative effects on the ease and quality with which strategic change can take place. These researchers argue that the presence of external board members will lead to a lower level of group cohesiveness and a high heterogeneity of the board, which is associated with group process difficulties and thus a higher risk of inter-group conflicts (Yasemin Y. Kor, 2006; Milliken & Martins, 1996; O'Reilly III, Caldwell, & Barnett, 1989) due to inefficient communication, uncoordinated group action and lack of mutual understanding. Additionally, Iturralde et al. (2016) argue that despite the fact that outsiders are more flexible in reacting to crises because of their independent nature, they tend to make a greater amount of mistakes due to their lack of firm-related knowledge, as well as their weak grasp on family specific processes. These mistakes could hamper the board from giving the advice that fits best the needs of the family firm.

Brunninge et al. (2007) found that the presence of outsiders on the board of directors increases the likelihood of strategic change to happen. This means that outsiders will facilitate the advisory role of the board of directors through their ability to think more freely concerning strategic alternatives that the firm may have (Forbes & Milliken, 1999). Outsiders possess external expertise and experience that is complementary to that of internal directors, which prevents the board of directors from developing a narrow and myopic view of the firm (Brunninge et al., 2007) and allows them to provide the advice needed by the TMT in a more extensive manner. This will indirectly permit the management team to make strategic decisions of a higher quality. Sharing this view, Gabrielsson and Huse (2005) acknowledge that outsiders enable the board of directors to provide advice and counsel in areas where existing knowledge was found to be lacking, this may thus decrease the possibility of ending up in a situation of strategic inertia. Given that these studies (Brunninge et al., 2007; Gabrielsson & Huse, 2005) are performed with a similar family firm SME context, we therefore believe that the higher the number of outsiders on the board, the higher the strategic decision-making quality of the TMT, because it will be easier for the board of directors to execute a high quality advisory role. Accordingly, we present the following hypothesis:

**H2:** *The relationship between the number of outsiders on the board and the strategic decision-making quality of the TMT is mediated positively by the advisory role of the board.*

Board tenure is another important factor that might lead to differences in the quality of strategic decisions. This factor, too, has been the subject of many studies. Within these studies, both positive and negative aspects are considered. The most consistent finding is that a higher board

tenure results in an increase in knowledge about the firm and therefore also expertise (Barroso et al., 2011), which results in an improved execution of the board's advisory role. Additionally, researchers describe a high board tenure as: (1) being able to facilitate communication (Zenger & Lawrence, 1989); (2) increasing shared team experience, which makes it easier for directors to function together in times of uncertainty (Yasemin Y Kor & Mahoney, 2000).

Other studies propose that long tenures have an increased chance of resulting in higher resistance to change (Musteen, Barker, & Baeten, 2006) and greater rigidity (Golden & Zajac, 2001), which may hamper the ability of the board of directors to formulate advice that is in the best interest of the firm. These effects will be even stronger in family firms, where families are often stuck in a loop of strategic rigidity, a situation in which information is passed around at an extremely slow rate.

However, a high average board tenure not only implies a very experienced board, as mentioned before, but also one that is highly capable to apply their knowledge and skills to its tasks and facilitating roles (Forbes & Milliken, 1999). Additionally, directors with a high board tenure tend to act in the best interest of the firm, explained by their tendency to show long-term firm commitment (Iturralde et al., 2016). They will therefore be better able to strategically steer the management in the right direction based on their improved advisory capacities. Accordingly, we present the following hypothesis:

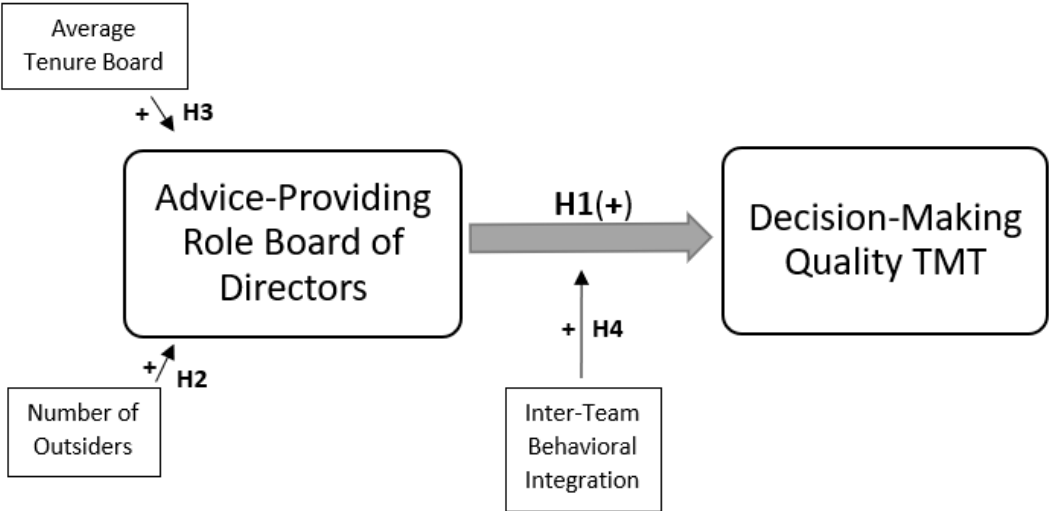
**H3:** *The relationship between the average amount of years a board member is tenured and the strategic decision-making quality of the TMT is mediated positively by the advisory role of the board.*

The behavioral aspect of the interactions between the board of directors and the TMT has emerged as an important area of research in recent years. The concept of behavioral integration was first addressed by Hambrick (1994) in the context of a TMT. He saw TMT behavioral integration as an overarching metaconstruct, consisting of one social dimension (the extent of a team's collaborative behavior) and two task dimensions (the quantity and quality of information exchanged in a team, as well as the extent of its joint decision making). However, establishing behavioral integration in the TMT alone may not be enough to guarantee a successful formulation and implementation of high-quality strategic decisions in a family firm. Inter-team behavioral integration between the board of directors and the TMT is needed. Because behaviorally integrated teams tend to share information, opinions, resources and decisions with each other and are therefore able to combine diverging viewpoints into a balanced strategic decision (Carmeli & Halevi, 2009; Carmeli & Schaubroeck, 2006), this should be extended to consider both the board of directors and the TMT, the two main bodies of corporate governance. When the members of both the board of directors and the TMT coordinate their behaviors in relation to each other, each of them will know what to expect from one another and more time can be spent on realizing strategic decisions of a high quality, as there is a lower chance that conflicts or discussions could erupt. This is particularly important within family firms, where family involvement has to be considered as an additional complex dimension (Berghe & Carchon, 2003; Fiegenger, 2010). Therefore, behavioral integration will increase the effectiveness of boards of directors to give advice suited for the management's strategic considerations by unifying the behaviors and resources of both the TMT and the board of

directors. Similarly, as proposed by Griffin and Hauser (1996), both governance bodies have to coordinate their strategic workflows in order to contribute to the overall integration between these teams. If this coordination doesn't take place, rework of the strategic plan or crises could occur (Kazanjian et al., 2000; Loch & Terwiesch, 1998). Accordingly, TMTs and boards that do reach a high level of inter-team coordination are likely to align their own strategic goals with those of the other governance body within the family firm to ensure the team's performance, as well as organization wide success (Hoegl, Weinkauff, & Gemuenden, 2004). Thus, inter-team behavioral integration will provide the board of directors with additional information and resources so that it can perform its advice-providing role better towards the TMT. For that reason, we believe that this concept will have a positive effect on the relationship between the advice-providing role of the board and the strategic decision making quality of the TMT. Therefore, we present the following hypothesis:

**H4:** *Inter-team behavioral integration will moderate the relation between the advice-providing role of the board and the strategic decision making quality of the TMT in a positive way, where the effect of the advice-giving role of the board on a TMT's decision-making quality is strengthened when inter-team behavioral integration increases.*

This results in the following conceptual framework:



**Figure 1.** Conceptual Framework





# METHOD

## Data set

The sample consists out of private Belgian family firms. A private firm can be considered as a family firm when ownership is in the hands of a single family (for at least 50% of the shares) where the CEO perceives the company as a family firm, and when the firm is significantly influenced by at least two members of the same family due to their positions in one of the firm's governance mechanisms (Chua, Chrisman, & Sharma, 1999; Tagiuri & Davis, 1996). The collection of firms in this sample has been selected and put together by Vandekerckhof, Steijvers, Hendriks, and Voordeckers (2017) using the snowball sampling method, considering that it uses referral by network contacts in order to find members of special hard-to-find populations (Biernacki & Waldorf, 1981; Saunders, Lewis, & Thornhill, 2007). They collected this data based on structured interviews with CEOs of private Belgian family firms and by distributing a questionnaire to the TMT of each of these firms. After an extensive selection and filtering process of 68 structured interviews, Vandekerckhof et al. (2017) ended up with a satisfactory amount of information for 55 of the 68 cases. The questionnaire that has been completed by managers within these 55 firms has yielded a total of 300 individual respondents. We used this same dataset for our study. However, in 8 cases, there were crucial values missing and thus we had to exclude them from the sample. This leaves our sample with 47 valid cases with sufficient information, and thus 261 respondents.

## Variables

*Dependent variable.* *Decision-making quality* has been measured as the combination of both decision quality and decision commitment (Mustakallio et al., 2002). The decisions described under this variable are of a strategic nature, as the sample we based our study on has used a similar context. Decision quality is determined by the extent to which a decision will lead to the achievement of the organizational goals (Vandekerckhof et al., 2017). Based on Amason (1996), decision quality comprises several items which are evaluated by the CEO and several team members on a five point Likert scale. These items, as determined by Vandekerckhof et al. (2017), consist of the following: (1) 'The decisions made by the TMT generally have a positive effect on achieving the goals of the firm'; (2) 'Generally, the decisions made by the TMT meet their expectations'; (3) 'Generally, the TMT is satisfied with the quality of their decisions'. Decision commitment on the other hand involves the extent to which the members of the TMT accept their decisions and commit to them after they have been made (Dooley & Fryxell, 1999; Korsgaard, Schweiger, & Sapienza, 1995). Based on Wooldridge and Floyd (1990), several items are included within decision commitment. These items are evaluated by all the managers of the TMT on a five point Likert scale. These items, as determined by Vandekerckhof et al. (2017), include: (1) 'The team members put in a lot of effort to adequately implement the decisions made by the TMT'; (2) 'The decisions made by the TMT meet the priorities of the individual team members'; (3) 'The team members generally agree that the decisions made contribute to firm performance'.

*Independent variables.* We have used 2 different independent variables within the study: *external directors* and *board tenure*. The variable *external directors* was examined by summing up the number of external directors per private family firm in terms of the absolute amount, where an external director or outside board member is a board member with a non-executive role in the firm (Castro et al., 2009) and isn't part of the family. However, the number of affiliated directors was excluded from this variable (*external directors*), because many family firms in our sample didn't have any directors of this kind active on the board. Thus, including them may reproduce inaccurate results with regard to the effect that outsiders have on the advice-giving role of the board of directors. *Board tenure*, on the other hand, is defined as the average number of months that a director has stayed active on the board of the private family firm. This was measured by dividing the sum of the board tenures of each individual director per family firm by the number of directors within that family firm. However, in 13 of the 47 firms, there was no information on the board tenure of individual directors. Excluding them leaves us with 34 cases that can be used for analyzing the effect of average board tenure.

*Mediator.* Our mediator variable, *advice role*, is determined by the average of five items within the questionnaire, all of which have been filled in by the CEO on a five point Likert scale. These five items, related to board's activities, comprise: (1) 'Offering aid and advice to the TMT with formulating the firm's strategy'; (2) 'Serving as a soundboard for the TMT for strategic affairs'; (3) 'Searching actively for new firm resources'; (4) 'Networking and maintaining existing relations'; (5) 'Building up the firm's reputation'. These statements give a good picture of the extent to which the board of directors pays attention to its advisory tasks, according to the CEO.

*Moderator.* The moderator within this study, *behavioral integration*, can be described as the inter-team behavioral integration that exists between the two governance mechanisms: the board of directors and the TMT. This variable is measured by a multitude of items which have been filled out by the CEO on a five point Likert scale in terms of how much he/she agrees with them. In order to completely capture the extent to which inter-team behavioral integration can be observed, we separated these items in accordance to three respective fields. The first field, collaborative behavior, covers the extent to which both governance bodies are collaborative with regard to one another. This field contains the following items: (1) 'Members of both the TMT and the board of directors have difficulties with asking advice from each other'; (2) 'The TMT and the board of directors operate like a real team'; (3) 'Between these governance bodies, a fruitful cooperation can be observed'. The second field, information exchange, describes the accuracy and completeness with which information can be exchanged between these bodies. It comprises the following items: (1) 'I sometimes have the feeling that members of the TMT and/or the board of directors are withholding information'; (2) 'I sometimes have the feeling that not all the relevant information is discussed between the TMT and the board of directors'. The final field, joint decision making, illustrates to what extent the TMT and the board of directors make strategic decisions together. Within joint decision making, we can distinguish the following items: (1) 'When taking decisions, the input of each member is used'; (2) 'Most members have only a limited influence on the decision-making process'. In general, our moderator variable *behavioral integration* will be determined as the average of the seven items mentioned above.

*Control variables.* Within our study, we introduce three control variables: *firm size*, *TMT tenure* and *overlap*. *Firm size* is measured by *lnsize*, which is the natural logarithm of the amount of full time-equivalents that are employed in the firm (Gabrielsson, 2007; Yildirim-Öktem & Üsdiken, 2010) and is used to account for the skewed distribution of firm size (Gujarati, 1995). Such a control variable is included because it is generally believed that the size of a firm can have an influence on organizational decision-making. For one, several authors (Iaquinto & Fredrickson, 1997; Papadakis, Lioukas, & Chambers, 1998; Shepherd & Rudd, 2014) believe larger firms experience increased levels of debate and disagreement in decision-making. *TMT tenure* on the other hand is defined as the average amount of months that a manager is active in the private family firm. *TMT tenure* is considered to influence how knowledgeable the members of the TMT are about the firm's resources and what its strategy should be (Finkelstein et al., 2009; Penrose, 2009), which makes it a valuable control variable for our research. And finally, *overlap* is measured by the percentage of overlap between members on the TMT and the board of directors. This is a variable that simply can't be excluded from our research, as members who are seated both in the TMT and the board of directors are presumed to pursue the best interests of their organization and are more intrinsically motivated to strategically perform well (Fama & Jensen, 1983; Wasserman, 2006).

### **Data analysis**

For this study, we will make use of the PROCESS plugin for SPSS (Hayes, 2017) in order to realize effective and accurate analyses of moderated mediation models. In order to test this, we have made two separate moderated mediation tables based on the two different mediation effects that are considered within the study. Through the PROCESS codes, statistically significant effects can be determined and can be reported in an easy to understand fashion. Now, we will continue by analyzing the descriptive statistics and correlations, as well as the results that came out of these moderated mediation models.



## RESULTS

Table 1 and 2 contain the descriptive statistics and the correlations. On average, a board member stays active in a family firm for 127 months and a manager stays active in a family firm for 112 months. Additionally, Table 1 shows that the board tenure varies between 15 and 440 months, while the TMT tenure varies between 30 and 258 months. Seeing that advice role's minimum is 1.80 and its maximum is 5.00, we argue that the managers have assigned a mediocre score to the board's attention for its advice role (3.47 is reasonably in the middle between these two values). In terms of external directors or outsiders: on average, only 1.14 directors of every family firm come from outside the firm. This isn't much since the maximum value of this variable is 5. The natural logarithm of firm size has a mean of 5.05, with a minimum of 3.04 and a maximum of 8.27. The extent to which members of the TMT and the board of directors overlap is rather high. About 57 percent of all members sit both on the TMT and board of directors. The average value of behavioral integration is 3.79. The minimum value is 3.04, while the maximum value is 4.65. Finally, looking at the decision-making quality, the respondents have assigned a rather high value (4.06) to their decision quality and decision commitment. Also, the minimum (3.32) and maximum (4.75) values are rather close together. The mean values for both behavioral integration and decision-making quality are in line with the findings of prior research (Carmeli, Tishler, & Edmondson, 2012; Dooley & Fryxell, 1999; Mustakallio et al., 2002; Simsek, Veiga, Lubatkin, & Dino, 2005).

The correlation matrix, which can be found under Table 2, shows significant correlations between organizational and behavioral characteristics on the one hand and the decision-making quality of the TMT on the other hand. Inter-team behavioral integration, firm size and TMT tenure for one are positively related to the decision-making quality of the TMT. Additionally, the amount of outsiders in the private family firm and the extent of advice the board provides appear to be negatively related. Finally, it seems that both board tenure and overlap are significantly negatively related to external directors, while firm size is significantly positively related. In terms of multicollinearity, not one of the correlation values described in Table 2 has a value of 0.8 or above and the variance inflation factor (VIF) for every variable used in this study is situated between 1 and 10 (the lowest value is 1.145, and the highest value is 2.075), as is recommended. This means that our study is not affected by any form of multicollinearity (Gujarati, 1995; Mansfield & Helms, 1982).

**Table 1.** Descriptive statistics

Variable	Mean	SD	Min	Max
Decision-making quality	4.06	0.31	3.32	4.75
Advice role	3.47	0.70	1.80	5.00
External directors	1.14	1.47	0.00	5.00
Board tenure <sup>b</sup>	127.37	105.18	15.00	440.00
Behavioral integration	3.79	0.41	3.04	4.65
Firm size <sup>a</sup>	5.05	1.31	3.04	8.27
TMT tenure <sup>b</sup>	112.48	55.14	30.00	258.00
Overlap	0.57	0.31	0.00	1.00

N=47, N=34 for Board tenure

<sup>a</sup>Natural logarithm used in regression model (PROCESS)

<sup>b</sup>Measured in months

**Table 2.** Correlations

Variable	1	2	3	4	5	6	7	8
1. Decision-making quality	1.00							
2. Advice role	-0.015	1.00						
3. External directors	0.188	-0.282**	1.00					
4. Board tenure	0.001	-0.130	-0.281*	1.00				
5. Behavioral integration	0.654***	0.144	0.098	-0.274	1.00			
6. Firm size	0.245*	-0.180	0.610***	0.080	0.097	1.00		
7. TMT tenure	0.264*	0.190	-0.071	-0.107	0.003	0.000	1.00	
8. Overlap	0.102	0.294**	-0.585***	0.070	0.029	-0.487***	0.229	1.00

N=47, N=34 for Board tenure

\*, \*\*, \*\*\* correlation is significant at .10 level, .05 level, .01 level (two-tailed)

Firstly, we will test hypothesis H1, where we argue that *'The extent of advice provision by the board of directors will have a positive effect on the quality of the strategic decisions made by the TMT'*. However, looking at Table 3 (Panel B), the results contradict this assumption by displaying a significant negative effect of the advice role of the board on the strategic decision-making quality of the TMT ( $\beta = -1.2666$ ,  $p < .01$ ). In Table 4, a similar significant negative effect can be noted, but at a lower significance level ( $\beta = -1.3035$ ,  $p < .05$ ).

In terms of hypothesis H2, which states that *'The relationship between the number of outsiders on the board and the strategic decision-making quality of the TMT is mediated positively by the advisory role of the board'*, the results show a non-significant effect (Table 3, Panel B). More importantly, this model is not significant as a whole, as can be seen in Panel A of Table 3 ( $p = 0.1195$ ), which means that the link between external directors and the advice-provision of the board of directors is unclear. Thus, our hypothesis is not supported.

The results as seen in Table 4 (Panel A) provide no significant evidence for H3. The negligible positive effect that board tenure is presumably having on the strategic decision-making quality through the board's advice-providing role is not significant (Table 4, Panel B). Additionally, the model as a whole is proven not to be significant ( $p = 0.5459$ , see Table 4, Panel A) and thus no association can be made between board tenure and the advice role of the board of directors. Therefore, our third hypothesis, *'The relationship between the average amount of years a board member is tenured and the strategic decision-making quality of the TMT is mediated positively by the advisory role of the board'*, is not supported.

The results of the moderated mediation model that are used to test H4 can be found both in Table 3 (Panel B) and Table 4 (Panel B). Within these models, the interaction variables (advice role, behavioral integration and decision-making quality) have been mean centered, which aids in the interpretation of the interaction effects (Kam, Robert Jr, & Franzese, 2007). Within Table 3, it can be noted that the interaction term that is obtained by multiplying advice role and behavioral integration is positive and significant ( $\beta = 0.3264$ ,  $p < .01$ ). Similarly, within Table 4, the interaction term that is realized by multiplying advice role and behavioral integration yields a positive and significant effect ( $\beta = 0.3270$ ,  $p < .10$ ). We can therefore conclude that our hypothesis H4 is supported. There is a significant positive effect of behavioral integration on the relationship between the advice role and the strategic decision-making quality as anticipated by our hypothesis: *'Inter-team behavioral integration will moderate the relation between the advice-providing role of the board and the strategic decision making quality of the TMT in a positive way, where the effect of the advice-giving role of the board on a TMT's decision-making quality is strengthened when inter-team behavioral integration increases'* (and this for both external directors and board tenure as independent variables, as can be seen in both Table 3 and Table 4).



**Table 3.** Regression results for moderated mediation model of external directors on decision-making quality through advice role with behavioral integration as moderator

Model	b coeff	SE	T
<u>Panel A:</u> Mediator variable model (DV = Advice role)			
Constant	3.0422	0.5758	5.2834***
External directors	-0.0952	0.0924	-1.0305
Firm size	0.0128	0.0974	0.1317
TMT tenure	0.0019	0.0019	0.9892
Overlap	0.4335	0.4301	1.0079
<b>R<sup>2</sup> = 0.1568, F = 1.9521 , p = 0.1195</b>			
<u>Panel B:</u> Dependent variable model (DV = Decision-making quality)			
Constant	6.3083	1.3064	4.8289***
Advice role	-1.2666	0.3549	-3.5693***
External directors	0.0328	0.0271	1.2078
Behavioral integration	-0.7100	0.3547	-2.0014*
Advice role x Behavioral integration	0.3264	0.0964	3.3852***
Firm size	0.0452	0.0278	1.6264
TMT Tenure	0.0012	0.0006	2.0895**
Overlap	0.2320	0.1247	1.8610*
<b>R<sup>2</sup> = 0.6735, F = 11.4914 , p = 0.0000</b>			

N=47. Mean centered regression coefficients are reported.

\*p<.10, \*\*p<.05, \*\*\*p<.01 (two-tailed)

**Table 4.** Regression results for moderated mediation model of board tenure on decision-making quality through advice role with behavioral integration as moderator

Model	b coeff	SE	T
<u>Panel A:</u> Mediator variable model (DV = Advice role)			
Constant	3.2629	0.6035	5.4069***
Board tenure	-0.0003	0.0010	-0.3055
Firm size	-0.0550	0.0876	-0.6283
TMT tenure	0.0029	0.0020	1.4171
Overlap	0.0407	0.6198	0.0656
<b>R<sup>2</sup> = 0.0974, F = 0.7824 , p = 0.5459</b>			
<u>Panel B:</u> Dependent variable model (DV = Decision-making quality)			
Constant	6.3443	2.0766	3.0552***
Advice role	-1.3035	0.6053	-2.1536**
Board tenure	0.0004	0.0004	1.0453
Behavioral integration	-0.7126	0.5513	-1.2924
Advice role x Behavioral integration	0.3270	0.1641	1.9924*
Firm size	0.0605	0.0312	1.9392*
TMT Tenure	0.0016	0.0008	2.0651**
Overlap	0.1448	0.2244	0.6452
<b>R<sup>2</sup> = 0.6317, F = 6.3703 , p = 0.0002</b>			

N=34 (board tenure). Mean centered regression coefficients are reported.

\*p<.10, \*\*p<.05, \*\*\*p<.01 (two-tailed)

# DISCUSSION

Our study builds on the extensive research that considers an important strategic role for the board of directors (Bammens et al., 2011; Finkelstein et al., 2009; Rindova, 1999; Simsek et al., 2015; Van den Heuvel et al., 2006). Specifically, their involvement in the strategic decisions taken by the Top Management Team. Using the context of the strategic choice theory, we started this research by considering the board of directors as an active participant in the corporate governance processes through their advisory role. In order to extensively map the effects of this advice provision on the quality of strategic decision-making, we examined both board composition elements and behavioral elements of the strategical relation between the TMT and the board. The arguments formulated in this work indicate a need for more extensive and deeper insights into the strategic influence of the board, and show how complex inter-team relations between the main corporate governance mechanisms can be. In this study, we have made attempts to analyze the extent to which advice provision by the board is needed to fuel the strategic effectiveness of a firm. We developed and tested a number of arguments with regard to two compositional elements of the board, as well as investigated the moderating effect of behavioral integration between the TMT and the board.

Concretely, within this work we expected the advice-giving role of the board of directors to positively influence the decision-making quality of TMTs in family firms. We have argued that both the number of outsiders on the board and the number of years that a board member is active in the firm could positively affect the extent to which the advisory role is effectively performed, which will ultimately benefit the quality of strategic decisions made within a family firm. Including such demographic variables to measure the composition of the board is an important element to describe the board's capabilities, according to Macus (2008) and Castro et al. (2009). Lastly, we claimed that the presence of inter-team behavioral integration, which is the extent to which both governance mechanisms coordinate their behaviors in accordance to one another, will strengthen the positive effect that the board's advice provision is perceived to have on the quality of strategic decisions made by the TMT. Adding such a behavioral dimension is necessary, as the board's effectiveness in its advisory roles may also be determined by the nature of inter-group dynamics (Castro et al., 2009).

Using a unique sample with 261 respondents from 47 family firms to analyze moderated mediation models, we unexpectedly discovered, that the board's advisory role has in fact a negative effect on the quality of strategic decision-making quality. In other words, the advice given by the board of directors is not perceived as having added value for the quality of strategic decisions. Possible argumentation for this could be that the board of directors may lack firm-specific knowledge, and will therefore not produce valuable advice to the TMT. Additionally, the board of directors could be perceived as being too intrusive on the TMT's daily activities (Finkelstein & Mooney, 2003) by the managers. Another potential explanation could be that the relation between the board of directors and the manager in the TMT is perceived as negative by both sides due to contextual or emotional factors. Results have also shown that the perceived effect that outsiders have on the advice role of the board is not significant. A possible explanation for this can be found in the fact that on average

only 1.14 directors of the board are externals (as seen in Table 1) and thus that the increase in knowledge and ideas that outsiders could potentially provide to the board (Borch & Huse, 1993; Forbes & Milliken, 1999; Goll et al., 2007; Lant et al., 1992; McDonald & Westphal, 2003; Sundaramurthy & Lewis, 2003; Westphal & Bednar, 2005) has not been directly recognized as an important factor by the managers that responded to the questionnaire. Equally, our findings indicate that board tenure does not have an effect on the advice provision by the board of directors. One reason for this could be that managers don't experience any difference in quality of advice given by the more experienced board members, compared to the less experienced ones. In other words, TMT managers don't see the added value in terms of knowledge, expertise and communication that board members with a high tenure bring with them (Barroso et al., 2011; Zenger & Lawrence, 1989). However, the results of our study have revealed that the presence of inter-team behavioral integration will reduce the negative effect of the board's advice-giving role on the decision-making quality of the TMT. Thus, when both governance mechanisms' behaviors are respected and taken into account within the family firm, the negative effect of advice provision by the board will be mitigated.

We contribute to the family firm and corporate governance literature in two main ways. First, the strategic decision-making process in family firms is rather important as it requires the involvement from both the TMT and the board of directors. However, research that considers the importance of the strategic nature of the TMT in a family firm is rather limited in comparison to research on boards of directors (Nordqvist, Sharma, & Chirico, 2014). We fill this gap by exploring to what extent the board may strategically interact with the TMT's capabilities to realize high quality strategic decisions. More importantly, this study is one of few that explores the advisory role of the board of directors in detail. Other works on strategic decision-making quality in family firms have taken a more general approach to describing the effects of the board (Bammens et al., 2011; Brunninge et al., 2007; Rindova, 1999; Van den Heuvel et al., 2006). Thus, our study has the potential to further the debate on the prominence of the advisory role in the ever-changing organizational context.

Second, we confirm the importance of contextual processes through analyzing the inter-team behavioral integration between the TMT and the board of directors. Although the concept of behavioral integration has been developed quite some time ago by Hambrick (1994), it has, to our knowledge, only been used to describe the behavioral context within one organizational team (Carmeli & Halevi, 2009; Carmeli & Schaubroeck, 2006; Kisfalvi, Sergi, & Langley, 2016; Lubatkin, Simsek, Ling, & Veiga, 2006; Yi, Ndofofor, He, & Wei, 2018). Therefore, we are one of the first studies to consider the concept of behavioral integration in a multi-team context, where the coordination of behaviors between the TMT and the board of directors has led to some important strategic implications.

### **Practical implications**

Within family firms, the strategic relations between the board of directors and the Top Management Team are not always successful in nature, yet they are crucial for organization wide advancements. It is therefore important to shed light on how and why these relations may succeed or fail. This

paper inquires how boards of directors can affect the strategic effectiveness of the TMT through the advice they provide. The findings show that the advisory role of the board does not add value to the strategic side of the family firm. Perhaps due to a lack of firm-specific knowledge or being perceived as too intrusive on the TMT's daily business activities (Finkelstein & Mooney, 2003). It is therefore essential for family firms to compose a balanced board of directors, that can complement each other's capabilities in order to strategically strengthen the TMT. This way, the members of the board won't be associated with a negative connotation. Additionally, as shown in our study, this problem can be tackled by ensuring an elaborate coordination of behaviors between these two governance mechanisms. In other words, members of both the TMT and the board of directors need to understand and respect each other's contribution to the family firm from a person-to-person perspective. Only then can the family firm, as a whole, evolve in the desired high-quality strategic direction.

### **Limitations and future research**

Our research is characterized by some limitations, which could also provide avenues for future studies. Firstly and most importantly, the choice of a dataset that only contains private Belgian family firms may negatively affect the generalizability of this study, both from a geographical and an organizational point of view. Further research could expand this research to other countries or even perform cross-country analyses to discover differences in culture and legislation. Secondly, the predominance of managers and CEOs as respondents of the questionnaire may lead to inaccurate findings as the board's viewpoint was not considered. Future researchers would benefit from considering a balanced research population, where every relevant party is considered. Thirdly, for some of our variables (mainly the independent variable board tenure) there was a lot of data missing, which we had to exclude from the research. This led to a deterioration of the accuracy with which we could measure the effects of these variables. A fourth limitation is the lack of useful findings that came forth from our results. Researchers could use different and more detailed control variables to better capture the effect that the board's advisory role may have on the strategic decision-making quality of the TMT in a family firm. Fifth, we only considered one behavioral dimension of the relation between the board of directors and the TMT. Similarly, our study relied heavily on characteristics that can be observed easily by looking at the composition of the board of directors and the TMT. Therefore, going deeper into how behavioral integration is organized and how it evolves in a family firm may provide interesting and meaningful results with respect to the research question posed in this research. For example, both collaborative behavior, information exchange and joint decision making could be considered in relation to one another. Additionally, the effects of psychological safety as a behavioral oriented contextual factor on the strategic relation between the TMT and the board of directors can be considered, expanding the work of Edmondson (1999). However, we suggest that such behavioral oriented studies should be longitudinal in nature, as they can better probe into the dynamics of governance processes (Wu, 2008). Finally, we did not analyze the social and emotional elements characterized by family firms in detail, in order to keep the complexity of our research limited. However, as is widely recognized, socio-emotional wealth (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007) or the idea that family firms are motivated by non-financial objectives that may affect their needs

besides normal financial objectives, could have a very important effect on the advice provision by the board as well. This will provide a very fruitful avenue for future research.

## **Conclusions**

It is widely recognized that both the TMT and the board of directors should be involved in the strategic process of a family firms. However, the effect that such an involvement will have on the strategic decision-making quality in a family firm is relatively unexplored. This study addresses this challenge by showing how and to what extent the advice provided by the board of directors can affect the quality of strategic decisions, which are taken by the TMT. Building on the strategic choice theory and insights from family firm and corporate governance literature, we hypothesized that the advisory role of the board would have a positive effect on the strategic decision-making quality of the board. However, this logic was not supported by our findings. Still, the presence of inter-team behavioral integration, which is the extent to which both governance mechanisms coordinate their behaviors in relation to one another, was found to mitigate this negative effect. This indicates that theory and management need to pay close attention to the behavioral context of the family firm in order to compose a board of directors that can potentially aid the organization in achieving its predetermined strategical goals and directions.

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Richting: **master in de toegepaste economische wetenschappen-innovatie en ondernemerschap**

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